

SUSTAINABLE WATER AND SANITATION IN AFRICA (SUWASA)

Reform Work Plan for Introducing Efficient and
Innovative Water and Sanitation Services in the
Municipality of Awassa, Ethiopia

November 10, 2010

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Table 4-1: SUMMARY OF PROJECT RESOURCES (IN PERSON DAYS)**Error! Bookmark not defined.**

ACRONYMS AND ABBREVIATIONS

ATWB	Awassa Town Water Board
AWSSE	Awassa Water Supply and Sewerage Enterprise
EGAT	Bureau of Economic Growth, Agriculture and Trade
GoE	Government of Ethiopia
M&E	Monitoring and Evaluation
MoWR	Ministry of Water Resources
PMP	Performance Monitoring Plan
RWP	Reform Work Plan
RWRB	Regional Water Resources Bureau
SIP	Small Investment Program (SUWASA)
SOW	Statement of Work
SNNPR	Southern Nations Nationalities and Peoples Region of Ethiopia
SUWASA	Sustainable Water and Sanitation in Africa
TWB	Town Water Board
USAID	United States Agency for International Development
WRDF	Water Resource Development Fund
WSS	Water and Sanitation Services
WSSE	Water Supply and Sanitation Enterprise

Project Summary Sheet

Project Title	Introducing Efficient and Innovative Water and Sanitation Services in the Southern Nations Nationalities and Peoples Region of Ethiopia
Country	Ethiopia
Specific Location	Awassa Town, Capital of the Southern Nations Nationalities and Peoples Region of Ethiopia
Main Objectives	Create a conducive environment for AWSSE to operate as a sustainable business enterprise based on performance objectives and targets, incentives, monitoring and results business.
Specific Objectives	<ol style="list-style-type: none"> 1. Facilitate transformation of AWSSE into an autonomous utility with a Board of Directors that includes representation by key Awassa stakeholders 2. Develop an incentive-based performance agreement between AWSSE and the Awassa Town Water Board that includes the commonly agreed performance targets and a clear monitoring framework. 3. Update the AWSSE Corporate and business plan, including the capital investment and finance plan, that provides a clear road map for achieving the targets in the performance agreement through an incentive based management framework. 4. Implement institutional, financial and managerial reforms to achieve business plan objectives.
Project Duration	24 months
Approximate Commencement Date	November 1, 2010
Prime Implementing Organization	<ul style="list-style-type: none"> • Tetra Tech ARD,, through SUWASA Project Office based in Awassa.
Implementing Partners	<ul style="list-style-type: none"> • Regional Water Resources Bureau • Ministry of Water Resources • Town Water Board • AWSSE
Key Project Implementation Staff	<ul style="list-style-type: none"> • Team Leader –TBD • Utility Operations Specialist –TBD • Finance Specialist –TBD • STTA in different areas
Reporting Requirements	Monthly, quarterly and mid-term (after 12 months) and end of project report (after 24 months)
Project Partner Contribution	<ul style="list-style-type: none"> • Staff time from the Regional Water Resources Bureau • Staff time from AWSSE

INTRODUCTION

Under this Reform Work Plan (RWP), SUWASA will assist the Town of Awassa, capital of the Southern Nations Nationalities and Peoples Region (SNNPR), in transforming its water and sanitation utility, the Awassa Water Supply and Sanitation Enterprise (AWSSE), into an efficient and sustainable enterprise functioning under commercially oriented principles. Reforms to be undertaken are in accordance with the decentralization policy of the Government of Ethiopia (GoE) Ministry of Water Resources (MoWR) policy, and the institutional framework for urban water and sanitation service delivery in Ethiopia. The two-year project defined in this RWP will result in improved services and long-term financial viability of AWSSE, and provide a reform model that is readily adaptable to town water and sanitation utilities across Ethiopia.

A new AWSSE should be the result of the project, a utility that is autonomous enough to operate as a business enterprise; that has the ability and tools to implement cost reflective pricing; that has authority to make investment decisions and is held accountable to transparent performance standards and targets to a Board of Directors that promotes commercial viability as a principle of managing the utility.

The project implementing partner will be the SNNPR' Regional Water Resources Bureau based in Awassa town. However the project will be implemented in close collaboration with the Town Water Board and the Board of Directors of the Awassa water supply and sanitation enterprise.

1 IMPLEMENTATION ENVIRONMENT AND ARRANGEMENTS

1.1 CONTEXT OF THE PROJECT

This project will be implemented in the Town of Awassa of the SNNPR of Ethiopia. Ethiopia has a total population of 90 million, of which only about 18% live in urban areas. Awassa is located about 300 km south of Addis Ababa and is the regional capital of SNNPR. Location maps of Ethiopia and SNNPR are provided below.

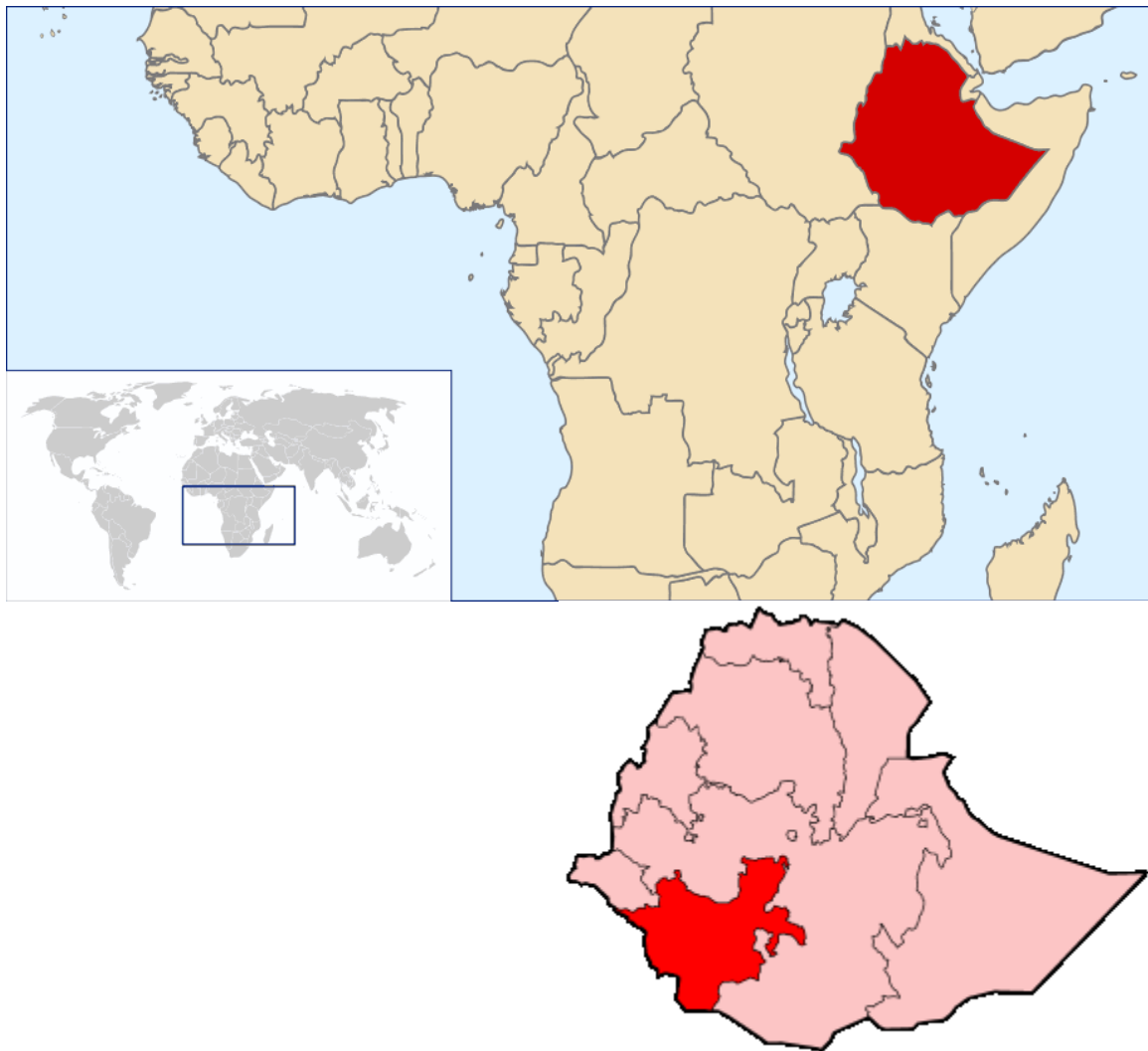


FIGURE 1-1: LOCATION MAP OF ETHIOPIA AND SNNPR

The provision of water supply and sanitation services in small and secondary cities of Ethiopia is characterized by low service levels and limited financing for expansion and improvement of services, coupled with capacity constraints and the absence of stakeholder participation. The ten secondary cities of Ethiopia (towns with populations above 100,000), are all faced with similar problems in terms of water supply and sanitation. While in the majority of these secondary cities, roughly 75% of households are served by their utilities this is based on two to five households sharing each residential connection, and the duration of supply is about 12 hours per day. Hence the actual number of house connections is actually much lower. Since 30% of the volume produced is not billed and 25% of what is billed is not paid, the utilities are collecting tariffs on only half of the volume of water produced. This problem, combined with low tariffs of about \$0.25 per m³, results in operating revenues covering only about 75% of operating expenses, falling short of the Government's full cost recovery policy of accounting for recurrent expenses, costs for renewal/replacement of short life assets and debt servicing. The situation regarding sanitation and wastewater management services is even more serious. Firstly there is scanty information on sanitation situation in Awassa. There is no central sewer system and sanitation services are limited to septic tanks and pit latrines in the secondary cities.

The proposed activities under the SUWASA program are fully supportive of the process of decentralization of water services, initiated by GoE in 1999. In line with these policies, lead responsibility for water and sanitation services largely resides at the local and regional levels. The central government provides broad policy guidance and financial support through capital grants and concessionary loans to local utilities under the direction of regional water development bureaus. While the specific institutional arrangements vary widely from region to region, the general framework for water and sanitation service delivery under Ethiopian law and MoWR guidance¹ provides for layers of responsibilities and authorities at each level of government, with autonomy in utility planning and management divested to the regional and local levels:

1. National Level:

MoWR provides overall policy guidance and strategic direction for water and sanitation across Ethiopia, including water quality standards and water resources. The Ministry also provides targeted technical assistance and grants to municipalities for water supply and sanitation. However, in Ethiopia's decentralized framework, responsibility for overseeing the performance of WSSE's resides with regional governments through the Regional Water Resources Bureaus (RWRBs). (The RWRB for SNNPR is located in the Town of Awassa, the subject of this RWP.)

The Water Resources Development Fund (WRDF) is an autonomous entity housed within MoWR that provides grants and concessionary loans to municipal water and sanitation utilities (enterprises). This is done through an annual competitive bidding process. All small and secondary towns in Ethiopia are eligible to submit applications to the WRDF. However, one of the key criteria for WSSE's accessing the funds is that they must demonstrate the commercial viability of the projects for which they are seeking finance. In addition, the WRDF requires WSSE's to have viable business plans.

¹ Town Water Supply and Sanitation Planning Guidelines, Ministry of Water Resources, October 2009.

2. Regional Level:

Ethiopia follows a Federal system of government. Water supply and sanitation is one of the sectors decentralized to the regions. The Regional Water Resources Bureaus (RWRBs) are responsible for overall program planning, management, coordination and capacity building for water supply and sanitation within their regions. WSSE's are accountable to their respective RWRBs under terms and conditions spelt out in performance agreements between the individual enterprises and their regional boards. Since regional governments bear the financial liability for loans and grants provided to local entities by the central government (e.g., loans and grants from the WRDF), RWRBs have the mandate and authority to approve proposals prepared by WSSE's to finance capital investments. In carrying out this mandate, the RWRBs provide technical assistance to WSSEs to help them qualify for grants and loans, e.g. appraising business plans and designs.

3. Local (Utility) Level:

At the local level, Ethiopia's institutional framework for water and sanitation is to encourage the engagement of three sets of actors, with their respective roles and responsibilities clearly defined in binding performance agreements and contracts among the parties (Figure 2.2):

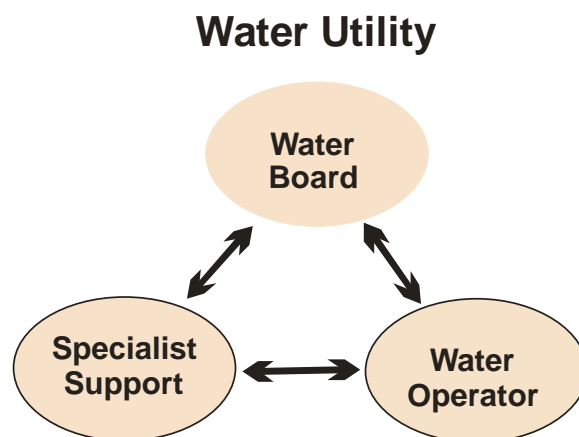


FIGURE 1-2: INSTITUTIONAL ARRANGEMENTS FOR TOWN WATER AND SANITATION SERVICES

- The Town Water Board is made up of a board that oversees the planning and provision of water and sanitation services on behalf of the community, and oversees a service provider that operates and maintains facilities and commercial operations. The water operator is accountable to its respective Town Water Board under a performance agreement or contract for the operation and maintenance of a water supply system, including management of commercial operations and capital planning.
- The Town Water Board acts as a local oversight and regulatory body for its town water supply. It must plan the expansion of its water supply, and monitor the performance of its operator against technical and financial standards. This includes the approval of tariffs, fees and business plans, and working with the community and government to ensure that sufficient funds are available to expand the system to meet increasing needs and demands.
- Water and sanitation enterprises are authorized to outsource services and, in fact, MOWR strongly encourages outsourcing of functions that are not within the core competencies of the local operators, e.g., service contracting for meter reading as well as more specialized tasks such as performance auditing, preparing and updating business

plans, improving operational efficiency, and expanding the systems. However, while GoE policy promotes and encourages outsourcing, the outsourcing concept has not been used by most WSSE's but in exceptional cases².

While this three-tier framework has been adopted in Ethiopia as a policy, little progress has been made in its implementation. The secondary cities have established town water boards and negotiated performance agreements with operators. However, the WSSE's generally have not integrated performance based management and accountability systems within their management guidelines and practices. There are no clear standards on which the performance of the WSSEs can be measured against. The Town Water Board members, generally political, typically do not have the time or technical background to effectively oversee the water operators. Outsourcing of selected services is almost nonexistent. Consequently, the general perception is that the WSSE's are stagnating with significant problems in organization, lack of adequate resources, vision and managerial capabilities.

Various programs in the past have tried to improve the enterprises' efficiency. Under the World Bank's Urban Water Supply and Sanitation Project, the Bank is providing assistance to four secondary towns³ to:

- i) produce and distribute more water and improve sanitation services;
- ii) improve operational efficiency by reducing non revenue water, and improving financial management, billing and collection, and customer management; and
- iii) improve governance by strengthening the water boards and introducing performance incentives for operators.

However, these efforts face major structural barriers in the institutional set-up and the lack of adequate incentives for good performance, including:

- Membership of Town Water Boards is typically dominated by political leaders with little experience or knowledge of water utility operations and management, and with little or no customer representation;
- Monitoring, oversight and reporting of WSSEs performance under their agreements with their Town Water Boards is weak;
- Incentives for performance are largely absent; and
- Updating of business plans and targets are not regularly carried out, since WSSE do not have a budget provided for reporting and data management.

SUWASA has the opportunity to play the role of a catalyst for institutional transformation of the water and sanitation sub-sector by demonstrating innovations to overcome these barriers, focusing on one town. By successfully implementing commercially oriented reforms in one secondary town, other secondary and smaller towns can readily learn from the experience and adapt the lessons from this experience.

² For example, the Awassa Water Supply and Sanitation Enterprise plans to pilot the outsourcing of meter reading in selected areas of the town to a local charitable organization. The motivation for this initiative appears to be to generate local employment rather than to necessarily improve collection efficiency.

³ The four towns Awassa, Jimma in Oromia Region, Gondor in Amhara Region, and Mekele in Tigray Region

To this end, SUWASA has selected the Town of Awassa. Awassa was selected for its unique characteristics that afford a high likelihood of reform success. The municipality has a high concentration of well educated citizens and a successful multicultural and peaceful environment. It has a population of 200,000, and is growing rapidly. This is attributed to its economic growth, as a tourist and educational center, as the recently designated capital of SNNPS, and also to the incorporation of five much smaller neighboring towns into the municipality in the first half of this decade, resulting in a population increase from about 69,000 in 1994 to over 186,000 in 2006.

The SUWASA project described in this Reform Work Plan aims to transform Awassa's water utility, the Awassa Water and Sewerage Enterprise (AWSSE) into a modern and efficient utility and stimulate the adoption of performance based management practices based on commercial principles. AWSSE is already moving along this path. The utility has a well functioning Board of Directors that is effectively engaged in the water enterprise and is committed to reforms to improve service delivery and system sustainability. The water enterprise is well managed, but recognizes that substantial improvements are needed, particularly in areas such as financial management, capital planning, and private sector participation. The General Manager reports to the Awassa Water Board (ATWB), which is chaired and co-chaired by the city's mayor and deputy mayors, and comprises public office holders drawn from regional sector bureaus including the Awassa WRDB. The Boards' responsibilities include overseeing performance of AWSSE and the General Manager (including hiring and termination actions), approving water tariffs, and implementing policy reforms.

AWSSE has a business plan which, while somewhat outdated (prepared in 2006, based on data that is now over ten years old), provides a basic blueprint for reform. The business plan establishes commercial objectives and a plan for the enterprise to achieve these objectives during the period 2006-2016, including:

- Increasing the number of connections from 9,015 in 2006 to more than 19,000 in 2016, as well as increasing private yard connections;
- Increasing per capita domestic consumption from less than 10 liter per capita per day to 25 liters by 2016;
- Meeting demands from these new connections and increased per capita consumption, increasing annual production of water from 1.43 million cubic meters (m³) in 2006 to 9.3 million m³ in 2016;
- Making the water supply service financially sustainable by recovering full costs of service delivery (O&M, debt service, and depreciation);
- Producing annual financial statements for public review and audit by an external auditor;
- Establishing personnel policies that provide financial incentives for employees based on performance; and
- Providing water borne sewerage services as warranted by customer demand.

AWSSE has implemented an increasing block tariff, ranging from \$0.12 per cubic meter (m³) for small consumers (consumption less than 5 m³ per month) to \$0.33/m³ for large consumers (consumption greater than 30 m³/month). According to its 2006 business plan, over 60% of its customers were private consumers connected to the network and 14% were getting their water from public taps. The balance of AWSSE's customer base was commercial, government, and industrial customers. In 2004, AWSSE had a financial surplus of roughly 11 percent over operating costs, and projected continuing surpluses if the utility did not factor in debt service or depreciation⁴.

However, in order for AWSSE to meet current and projected demands, major investments in water supply infrastructure are required. The main source of water is the surface water from the Kedo River, where a treatment facility was built in the 1980's and was designed to serve a population of less than 70,000 people. As discussed above, the population of the AWSSE's service area is now over 200,000, and supply capacity poses a severe constraint to meeting water demands.

While institutional and managerial reforms instituted by AWSSE in recent years have resulted in marked improvement in performance and expanded customer base, the enterprise faces several major challenges, to which this SUWASA activity is directly addressed:

- The performance targets for AWSSE need to be updated to reflect current economic and social realities of the region, based on an updated business plan that is wholly embraced by the Awassa Water Board.
- The water supply capacity constraints described above are expected to become more severe with continued economic and population growth in AWSSE's service area. AWSSE's current business plan and capital investment plan, prepared in 2006, do not reflect recent growth patterns. While opportunities for improvement in non-revenue reduction and demand management exist, new supply capacity will nevertheless be needed during the first half of the coming decade, and AWSSE will need to obtain external finance (from donor sources and from MoWR through the WRDF) to meet the increased demand..
- Although sanitation and sewerage management services are a responsibility of AWSSE, the enterprise does not have a program to carry out this responsibility. It has no strategy on how to address this challenge. AWSSE has a sanitation master plan but it has not been implemented. The commercial viability of a sanitation program needs to be demonstrated before AWSSE can make a strategic commitment to move more aggressively into the sanitation area.

⁴As of the time of preparation of this RWP, AWSSE is in discussion with MoWR and the World Bank for financing new water supply facilities, and has embarked upon a capital expansion program. SUWASA will reflect the latest information regarding these discussions and capital programming and financing during preparation of the Inception Report (see Section 3.2).

1.2 OVERALL OBJECTIVES OF THE PROJECT

The general objective of the project is to create a conducive environment for AWSSE to operate as a normal business enterprise based on performance objectives, monitoring and results, thereby promoting the enterprise to operate as a sustainable business. The reform programs to be adopted by the AWSSE are expected to serve as a transformation model for WSSE's in Ethiopia's secondary cities and small towns.

Since the start of the 1999 reforms, and since 2007 with the World Bank program, there have been a number of technical assistance interventions oriented to gradual improvements and the strengthening of autonomous water and sanitation entities. However, progress has been too slow to cope with the increase of population in urban centers resulting from growing migration from rural areas and the consistent growth experienced during the past five years in trade and tourism.

There is a shared view from some stakeholders such as the federal government, municipalities and donors that a drastic improvement in the short term is needed. According to major stakeholders, government mentality in the management of operations in main cities and towns, lack of a customer service culture, absence of incentives for performance improvement and lack of strategic planning are the critical challenges hampering the proper functioning of the sector.

The planned reform program will involve the adoption of commercial practices through the introduction of specific systems (e.g., business management and planning); private sector participation (e.g., outsourcing certain operational functions most efficiently conducted by private contractors); and accountability mechanisms, guided by a performance agreement with clear and transparent performance standards, targets, and incentives based on a strategic vision agreed to by the Town Water Board, the SNNPR Regional Water Resources Bureau, MoWR, and customers and other key stakeholders in Awassa.

The project is in line with SUWASA's policy objectives as briefly described below:

- *The poor and disadvantaged as valued customers:*

Considerations of the needs and problems facing the poor and disadvantaged in Awassa will be incorporated into performance standards, targets, and incentives. The project will place priority on access of safe, affordable, and reliable water and sanitation services to the poor and disadvantaged (including women). This will be achieved through developing appropriate tariff mechanisms that provide for the urban poor. Another possibility is the organizational structure that would lead to the establishment of a dedicated unit to deal with services to the urban poor.

- *Autonomy:*

The project will further the objectives of creation of business units autonomous from political interference in financial, administrative and organizational decision making critical to day-to-day operations of the utility

- *Accountability:*

Following principles of corporate governance, the project will execute a set of tasks that will define a clear line of rights and responsibilities within as well as outside the organization to improve the framework of accountability.

- *Incentives:*

The reforms will link incentives to clear and transparent performance standards and targets.

- *Cost reflective pricing, with provisions for the poor*

The reform is built around the principle of transforming an existing non-commercially viable enterprise into a financially sustainable entity, with a strong focus on tariffs based on cost recovery and equity.

1.3 INSTITUTIONAL SET-UP AND OVERALL PROJECT ORGANIZATION

This is a Technical assistance project to be provided by a team of experts with immense knowledge and experience on issues related to reforms. Two experts with expertise in utility operations and financial management will be based in Awassa and will be supported by short term expertise in organizational development, and human resources development, corporate governance and any others as needed. The team of experts will work closely with the Regional Water Resource Bureau of the SNNPR; the Awassa Water Supply and Sanitation Enterprise' and the Awassa Town Water Board. The project will be managed by a team leader who will also work closely with the the MoWR, other national government institutions, the World Bank, other donors and Addis-based institutions (e.g., the newly formed association of Ethiopian water utilities). In order to easily achieve this, the team leader will be based in Addis Ababa but will make constant visits to Awassa.

The implementing partner to this project will be the RWRB. The SNNPR RWRB, based in Awassa, plays an important role in arranging technical assistance for towns and cities in the region to qualify for grants/credits to improve their water supply facilities and in appraising town/city business plans and designs. SUWASA will work closely with the RWRB with a focus on transforming the Awassa WSS Enterprise into a modern and efficient enterprise able to attract investment whether donor funding or indeed from the private sector.

As a body responsible for overseeing the operations of the AWSSE, the Water Board of Awassa plays a critical role in commercializing operations, increasing water supply and expanding services.

SUWASA will establish strong working relations with the Ministry of Water Resources (MoWR) the Water Resource Development Fund (WRDF). The MoWR is a critical partner in assuring that all SUWASA activities are in compliance with and further the fulfillment of the Ministry's requirements and policies. Lessons learnt in implementing this project will be taken further by the MoWR for replication in other secondary cities and towns. The WRDF is a government organization housed within MoWR, responsible for providing grants and credits to WSSE's for major rehabilitation and expansion projects.

In addition, SUWASA will work in partnership with the World Bank's Urban Water Supply and Sanitation Project that is supporting the entities of Addis Ababa and four secondary cities (Awassa, Jimma, Gondar and Mekelle) with technical assistance, information technology, capital investment, and training and capacity building.

2 PROJECT DESCRIPTION

2.1 SPECIFIC OBJECTIVES TO BE ACHIEVED BY THE PROJECT

The main objective of the project is to create a conducive environment that will lead to AWSSE operating under commercial principles and performance based contracting. A set of key performance targets (ten year horizon) meeting MoWR guidelines will be agreed among the AWSSE, ATWB and RWRBRWRB. The set of reforms implemented for Awassa are expected to serve as a model for transforming the utilities in Ethiopia's secondary cities and larger towns. Given the fact that AWSSE and the Awassa Town Water Board currently have a performance agreement in place, the project focus will be on strengthening and improving the terms, standards, and oversight provisions in the agreement and in implementing a strengthened system of monitoring and accountability.

At the end of the two-year project, AWSSE will be managed in accordance with a business plan, including a plan for financing capital investments needed to fulfill the directed toward achieving a set of key performance targets agreed and understood among AWSSE, ATWB, and RWRB and in compliance with MoWR requirements. Specific results to be achieved are:

- An autonomous AWSSE will be operating with a Board of Directors that includes key Awassa stakeholders, including civil society and private sector representation, and clear accountability measures. Such a change can be achieved within the existing legal framework.
- An incentive-based performance agreement will be in place between AWSSE and the Awassa Town Water Board that includes the commonly agreed performance targets (technical and financial) and a clear monitoring framework.
- An updated business plan that provides a clear road map for achieving the targets will be adopted by the AWSSE General Manager and the ATWB and used to guide the adoption of financial, organizational, and managerial reforms.
- A clear strategy on how sanitation services will be provided in Awassa based on commercial principles. This may include an updated sanitation and sewerage master plan that could be incorporated in the business plan.
- An updated capital investment and finance plan (part of the business plan) will be approved by the Awassa RWRB, that accurately portrays capital needs to meet business plan objectives, taking into full consideration the extent to which efficiency improvements (e.g. demand management; nonrevenue water reduction; managerial improvements; etc.) can reduce capital infrastructure requirements.

2.2 TASKS AND RESULTS TO BE ACHIEVED BY THE PROJECT

To assure that project results are in accordance with and supportive of regional and national policies and requirements, SUWASA will provide technical assistance to AWSSE and the Awassa Town Water Board, but will coordinate closely with the RWRB and other relevant regional and national entities described in Section 2.1:

1. Local (Utility) level:

SUWASA will provide technical assistance to AWSSE, to help the utility fulfill a new commercially oriented vision. Assistance to the operator will include:

- Designing institutional reforms that align management and line functions of the utility with the performance standards to be incorporated into existing and new performance agreements (i.e., between AWSSE and the Town Water Board; and between AWSSE and SNNPR WRDF);
- Designing a strategy for private sector participation in utility functions that improve routine operations along commercial lines, while freeing up utility managers and staff to focus on the most critical demands;
- Upgrading the enterprise's existing business plan to include a plan for financing capital investments need by AWSSE to achieve long-term financial sustainability;
- Development of a strategy and evaluation of options for implementing a commercially based sanitation service to be included in the AWSSE's business plan and designing a pilot sanitation initiative to test its commercial viability

SUWASA will also review the existing institutional arrangement between the Awassa Town Water Board and the operator, to identify improvements that can be made (e.g., the mandate and composition of the Board as defined in the existing charter) and/or operationally (in terms of autonomy of the utility managers) as required to achieve a common vision for transforming the utility into a commercially oriented enterprise. Particular attention will be paid to implementing a contract between the board and the utility that provides transparent and measurable performance standards, targets, and associated incentives. This should lead to better corporate governance principles.

2. Regional government level:

SUWASA will review the institutional arrangements between the Southern Nations Nationalities and Peoples (SNNPR) Regional Water Resources Bureau, the Awassa utility and the Town Water Board, and assist in developing and implementing a new performance agreement that includes performance standards and accountability measures designed to promote and incentivize commercial practices in water and sanitation service delivery.

3. National government level:

In developing and implementing the performance agreement, SUWASA will provide technical assistance to AWSSE to ensure that that the agreement complies with MoWR and WRDF guidelines, and reflects experience of other towns across Ethiopia in implementing performance agreements. SUWASA will also provide technical assistance to the WRDF in improving its model performance agreement, including the Fund's due diligence procedures for reviewing loan applications from town water and sewerage enterprises, using the experience of AWSSE as a focal point.

TASK 1: PREPARE INCEPTION REPORT

Task Description:

The Inception Report will provide a detailed schedule of tasks and deliverables, based on a detailed review and evaluation of project-critical information, including:

- Perspectives of AWSSE, ATWB, RWRB, and MoWR, donors, and other stakeholders on the current sector goals, institutional arrangements, strengths and weaknesses, and recommendations for improvement.
- Current institutional arrangements and agreements among key entities at all governmental levels (AWSSE, ATWB, RWRB, and MoWR), e.g.:
 - Existing contract and other agreements between AWSSE and ATWB, including standards and targets; incentives and penalties,
 - Key agreements between AWSSE or ATWB and RWRB (e.g.: performance agreement; pending applications for financing capital improvements, etc.); and
 - Pending requests for financing for AWSSE capital works investments with the WRDF, etc.
- Current internal institutional arrangements and organizational structure of AWSSE and ATWB, e.g.:
 - Organizational directives, mission statements or operational units of AWSSE;
 - Charter and composition of ATWB as well as the AWSSE board of Directors and roles and responsibilities of Board members; and
 - Lines of communication and reporting, etc.
 - Existing financial, commercial, operational and asset stewardship.

Based on this review, SUWASA will prepare an Inception Report that provides a detailed plan for completing each of the tasks defined in this work plan. The inception report will also have a defined PMP with clear monitoring and evaluation mechanisms.

Schedule:

Within 45 days of project start-up.

Deliverable(s):

Inception Report providing key findings and recommendations, an updated work plan as required providing detailed schedules, milestones and deliverables; a PMP and a management plan that provides procedures for coordination among key stakeholders.

TASK 2. DEVELOP STRATEGIC REFORM PLAN BASED ON ACHIEVING KEY PERFORMANCE OBJECTIVES

Task Description:

Given the focus of the project on performance standards and incentives, it is critical that a common understanding and general agreement is reached among all of the project stakeholders over performance objectives and targets to be achieved, e.g.:

- Expanding access of households to water services, with considerations of the special needs of women and the poor;
- Reaching desired service levels and quality of water;
- Improving efficiencies and reducing costs, e.g., nonrevenue water reduction targets and strategies i.e. metering of consumers;
- Improving customer service;
- Achieving operational and, over time, full cost recovery; etc.

In order to make informed decisions, AWSSE and ATWB will need to have a clear understanding of the costs as well as the benefits of key performance objectives and associated financing requirements, and the implications for the enterprise to achieve long-term financial sustainability. Under this task SUWASA will provide technical assistance to support AWSSE and ATWB in reviewing current targets and plans for achieving strategic objectives for the enterprise; to review current institutional arrangements and procedures in light of these strategic objectives; and to implement policy, procedural, and operational reforms to achieve the objectives. SUWASA will engage with other key partners, including RWRB, MoWR, and international donors in this effort.

Upon completion of this task, AWSSE and ATWB will have a strategic plan for achieving key performance objectives, including:

- An updated set of performance objectives, standards, and targets based on full consideration of costs and benefits;
- An updated performance agreement between AWSSE and ATWB and, if required, updated Board charter; and
- An updated business plan, including a plan for financing priority capital investments needed to by AWSSE to achieve strategic objectives, standards, and targets.

Sub-Task 2.1: Analyze the Costs and Benefits of Alternative Performance Targets and Terms and Conditions in the AWSSE/ATWB Performance Contract:

SUWASA will conduct a strategic sustainability assessment of AWSSE, providing the financial, social, and institutional costs and benefits of achieving the targets over the short-, medium-, and long-term⁵. To start the task, SUWASA will conduct a two-day workshop for AWSSE and ATB, with participation by other stakeholders to determine whether the performance standards and targets in the AWSSE/ATWB contract fully reflect the town's current and projected needs and priorities, or whether alternative targets should be considered for analysis by SUWASA. The

⁵ The definition of "short-, medium-, and long-term" will be determined at a two-day workshop in Awassa, including key stakeholders (AWSSE, ATWB, RWRB, and other stakeholders). For planning purposes, SUWASA assumes that the overall planning horizon will be ten years, unless determined otherwise at the workshop.

workshop will provide SUWASA with direction needed to analyze the costs and benefits of each target, the relative priorities of each target, and trade-offs and special considerations that SUWASA will need to take into account in conducting the analysis. For example, key considerations may include:

- Alternative targets for expanding the customer base must be based on achieving AWWE's long-term financial sustainability, but place priority on expanding services to the poor;
- Tariffs should be based on cost of providing the service while taking into consideration the needs of the poor;
- Service improvements for existing customers must continue as the customer base expands;
- Financial targets, e.g., targets for achieving cost recovery must be based on commercial principles and transparent subsidies where needed;
- Realistic sanitation targets should be developed that reflect AWWE's limited capability in providing sanitation services and the need to test commercially based sanitation initiatives on a pilot basis.

Based on priorities and procedures agreed with the stakeholders, SUWASA will evaluate the economic, financial, and social costs and benefits of each alternative target. SUWASA will prepare a report providing its findings and recommendations to AWSSE and ATWB, and will make a formal presentation to the Board and AWSSE General Manager on the findings.

Deliverable:

Report providing costs and benefits of achieving targets and recommendations for target selection. The report will include recommendations regarding a tariff policy for Awassa showing the implications of achieving full cost recovery.

Schedule:

SUWASA will provide the draft report to AWSSE and ATWB, and to other key stakeholders as agreed in the Inception Report within 150 days of project start-up.

Sub-Task 2.2: Update Agreements between AWSSE and RWRB, and MoWR:

SUWASA will assist AWSSE and ATWB in incorporating the set of performance targets into the AWSSE/ATWB performance agreement, as well as updating terms and conditions in the AWSSE/ATWB management contract. SUWASA will also prepare monitoring and reporting guidelines to assure smooth implementation of the updated performance agreement. In addition, as required, SUWASA will provide technical assistance to AWSSE in updating agreements with other key stakeholders, e.g., performance agreement with RWRBRWRB and pending applications for finance with MoWR, to reflect the updated AWSSE/ATWB contract.

Deliverable:

Updated performance agreement, and monitoring and reporting guidelines.

Schedule:

Updated performance performance and monitoring and reporting guidelines within 240 days of project start-up.

Sub-Task 2.3: Provide Technical Assistance to AWSSE in Updating its Current Business Plan, to achieve the updated performance standards:

SUWASA will assist AWSSE in updating its current business plan, as required, to achieve the short, medium, and long-term performance targets established in Sub-Task 2.1. In preparing the plan, SUWASA will incorporate data that has been updated since the current business plan was prepared (e.g., socioeconomic data for the Awassa region, recent AWSSE business projections, etc.), and will provide technical assistance to fill data gaps (e.g., convening customer focus groups to fill gaps in existing customer willingness and ability and pay data). In addition to updating data and projections in the plan, the updated plan will include a recommended strategic reform plan for achieving performance objectives and targets, including options for implementing each recommendation, including:

- Institutional and managerial improvements to put AWSSE on a commercially based foundation;
- Plan for financing capital investments needed to achieve business plan objectives; Plan for outsourcing routine functions that could be conducted more efficiently and cost effectively by private contractors;
- A strategy for the AWSSE to undertake sanitation services including updating of the existing sanitation master plan, design of a pilot project to test the commercial viability of AWSSE launching a commercial sanitation enterprise;
- Organization plan, with recommendations for improving performance of AWSSE operational units, including exploiting opportunities to outsource specific functions;
- Human resources plan, focused on strengthening the alignment of performance standards and incentives with AWSSE's commercial/corporate goals; and
- Financial management plan, including recommended tariff revisions; internal financial management improvements, etc.

Deliverable:

Updated business plan, including updated financial projections and capital investment requirements.

Schedule:

Updated business plan to be prepared within 375 days after project start-up.

TASK 3. IMPLEMENT STRATEGIC REFORM PLAN

With a strategic reform plan completed in Year 1, SUWASA will re-direct its technical assistance toward helping AWSSE implement key elements of the plan. While the plan will include a blueprint for reforms in a range of areas, including improvements in management processes and procedures, personnel policies, etc., budgetary and time constraints limit SUWASA's ability to provide technical assistance for implementing the entire menu of reforms. Therefore, SUWASA plans to support AWSSE in implementing two critical components of the reform package:

- 1) Preparing a priority project under the capital investment plan for financing: One of the most pressing challenges facing AWSSE is securing financing for expanding its water supply capacity to keep up with the growth of the town. SUWASA will assist AWSSE in preparing a project for financing by MoWR and/or the Water Resource Development Fund, taking into account financing provided by the World Bank under the Urban Water and

Sanitation Project⁶. SUWASA has selected this implementation activity for two reasons: 1) it is a top priority to AWSSE; and 2) the activity affords an opportunity for SUWASA to cooperate with key entities at the local, regional, and national levels in integrating performance targeting into capital investment planning and finance.

- 2) Implementing an initiative for private sector participation: One of the major results of the SUWASA project is to demonstrate the advantages of outsourcing routine services. To this end, SUWASA will assist AWSSE in procuring the services of a private contractor to carry out at least one of the service functions ripe for outsourcing, as identified in the business plan prepared under Task 2.4 (e.g., meter reading, billings/collections, routine maintenance, etc.).

Sub-Task 3.1: Support Preparation of Application to Finance Water Supply Capacity Expansion:

As discussed in Section 2.1, AWSSE is facing a shortfall of water supply to meet the demands of a rapidly growing community. AWSSE is embarking upon a program of improving surface water extraction/treatment facilities to meet the demand, but has not secured the full financing needed to complete current plans.

Financing is potentially available from MoWR's revolving fund, but the loan application process is highly competitive and applications by local water enterprises must be approved by their regional water boards before they can be submitted. Among the key requirements, the application must demonstrate that an effective Town Water Board has been established with an effective management contract in place with the local water operator; the proposed project is financially justifiable and sustainable; that all feasible options have been thoroughly evaluated including private sector participation; and that the project is critical to the fulfillment of the water enterprises' strategic objectives.

With completion of the updated strategic plan under Task 2, Awassa will be in a position to submit a strong application to RWRBWRB and MoWR. SUWASA will assist AWSSE in preparing an application that demonstrates the financial and commercial viability of the project; in supporting AWSSE and/or ATWB in discussions and negotiations with RWRB and MoWR; and in revising the application as required.

Deliverable:

Comprehensive project finance application.

Schedule:

- Draft finance application completed within 525 days of project start-up.
- Decision by RWDB regarding approvability of finance application within 600 days of project start-up.
- Finance decision made by MoWR and/or WRDF within 670 days of project start-up.

⁶ As a condition of this assistance, AWSSE must demonstrate that it is implementing an effective program of technical and managerial improvements focused on reducing the need for new water supply facilities to the extent economically achievable. Based on commercially based criteria.

Sub-Task 3.2: Assist AWSSE in Implementing a Private Sector Participation Initiative:

SUWASA will provide technical assistance to AWSSE to procure a private contractor to carry out at least one of the functions recommended in the business plan for outsourcing. The specific service will be selected by AWSSE, with approval by the Board. Assistance to be provided by SUWASA will include preparation of the tender documents, developing financing arrangements for the contract, assistance in public tendering and proposal evaluation, and on-the-job training in contract oversight and management.

Deliverables:

- Tender documents;
- Signed contract with private contractor;
- Contract oversight manual.

Schedule:

All deliverables, including contract with private contractor, to be completed within 690 days of project start-up.

OPTIONAL TASKS

If the USAID Mission decides to buy in to the project during Year 2, there are a number of additional tasks that could be implemented to build on the work completed under this work plan:

Optional Task 1: Assist AWSSE in Implementing Additional Aspects of the Strategic Plan:

The strategic plan prepared in Task 2 will define a number of reforms required to assure that AWSSE will meet its strategic objectives, e.g.

- Conducting a pilot sanitation initiative, using the design prepared by SUWASA;
- Implementing the performance and incentive based human resources plan prepared by SUWASA ;
- Implementing the financial management plan and modernizing financial management systems as recommended by SUWASA; etc.

Should USAID/Ethiopia decide to buy-in to the project during Year 2, SUWASA would work collaboratively with USAID, AWSSE and ATWB and other partners in identifying specific reforms in the strategic plan to receive implementation assistance.

Optional Task 2: Sharing Lessons Learned with Other Towns in Ethiopia:

The experience and lessons learned from the Awassa reform program will be invaluable to other secondary cities and small towns in Ethiopia. With Mission approval and buy-in, SUWASA would develop and implement an outreach strategy to share these lessons with WSSE's, municipal authorities, RWRBs and other stakeholders, and to promote and support a professional network of water and sanitation professionals committed to performance based reforms in accordance with the Ethiopian decentralization framework. SUWASA would pursue partnerships with professional organizations, e.g., the newly-formed national association of water utilities, to sponsor public forums across Ethiopia.

2.3 INDICATORS FOR ACHIEVING THE PROJECT RESULTS

The indicators for measuring the achievement of project results need to be upgraded upon the start of project implementation in close consultation with the major stakeholders. This will be part of the PMP to be developed during the inception phase of the project. In this respect, the indicators as given below under each project result should be regarded as indicative only.

Indicator for increased autonomy for AWSSE, e.g.:

- Human resources, technical decisions and financial spending levels within AWSSE's management control, without requiring Board approvals
- Civil society and private sector stakeholders are appointed in the Awassa Water Board

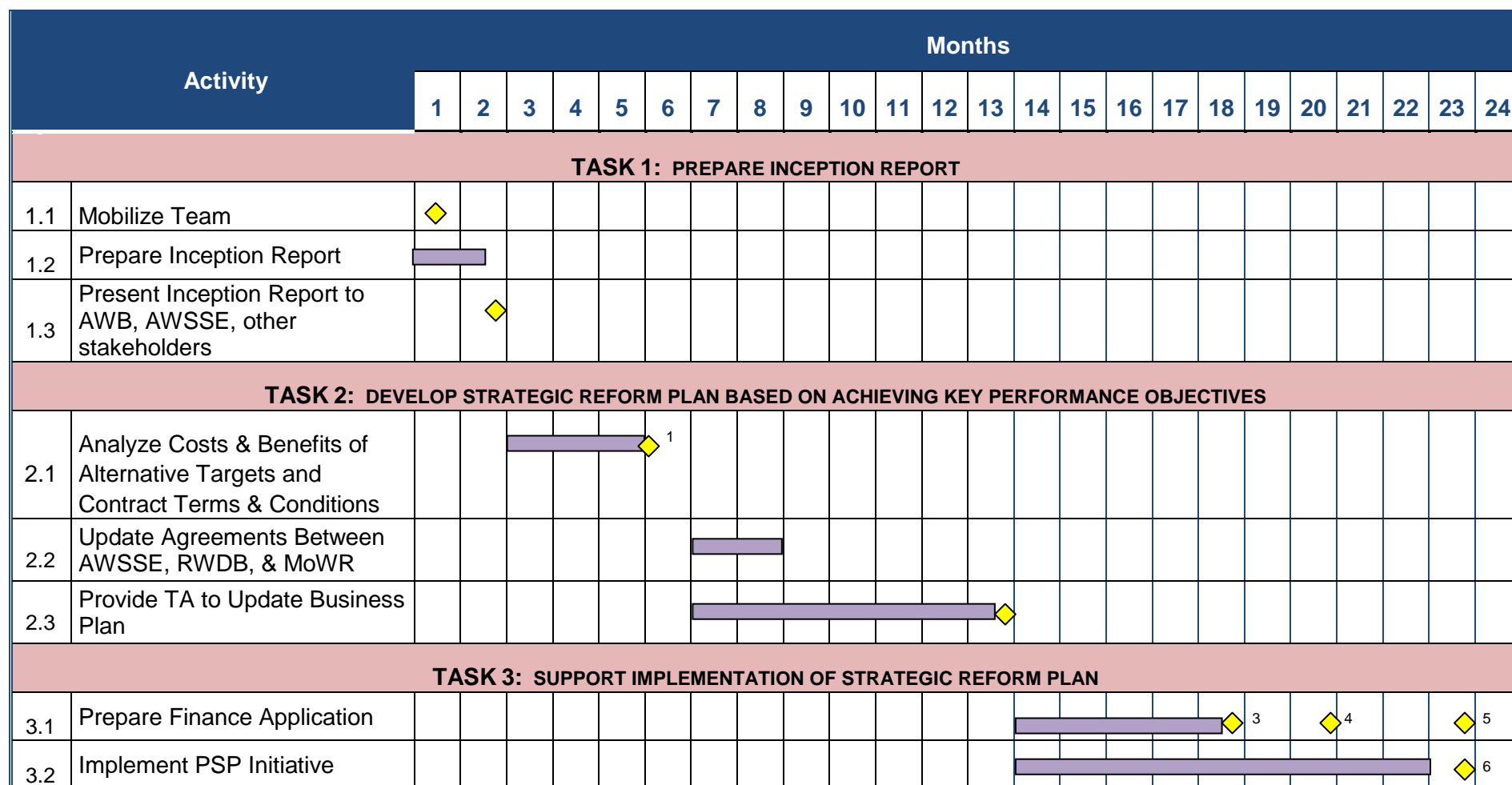
Indicator for commercialization of Selected Service, e.g.:

- Initiatives for improved service delivery and cost recovery as defined in an updated business plans are initiated.
- At least one routine operational function that is more effectively carried out by the private sector, as determined by sound commercial analysis (e.g., meter reading, bill collection, routine maintenance, etc.) is outsourced

Indicator for improved water services:

- Increased customer base, particularly increased access by the poor and disadvantaged.
- Improved service reliability.
- Improved customer satisfaction.

3 PROJECT TIMELINE



Months																								
Activity	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24
PROJECT MANAGEMENT																								
Submit Quarterly Progress Reports			◆			◆			◆			◆			◆			◆			◆			
Prepare Second Annual Work Plan																								
Mid-term Review											◆													
Deliver Draft Final Project Report for Comments																							◆	
Deliver Final Project Report																								◆

Milestone Key:

¹Present results of cost/benefit analysis and recommended performance targets/contract terms and conditions to AWB, AWSSE, and other stakeholders

²Present proposed business plan, including finance plan for capital investments, to AWB, AWSSE, RWRB, and other stakeholders.

³Present proposed finance application to AWB and AWSSE; begin support to AWB and AWSSE in liaising with RWRB and MoWR.

⁴Decision by RWRB regarding approvability of finance application.

⁵Finance decision by MoWR and/or WRDF.

⁶PSP Contractor onboard.